

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Pricing, based upon Total Element Long-Run Incremental Costs, for Unbundled Network Elements and Combinations of Unbundled Network Elements, and the Appropriate Avoided Cost Discount for Verizon New England, Inc. d/b/a Verizon Massachusetts' Resale Services in the Commonwealth of Massachusetts

D.T.E. 01-20

Part A (UNE Rates)

AT&T'S MOTION FOR PARTIAL RECONSIDERATION AND CLARIFICATION

REDACTED - PUBLIC VERSION

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Introduction.

AT&T Communications of New England, Inc. (“AT&T”) respectfully moves that the Department reconsider, and in one case clarify, conclusions concerning five specific issues addressed in the D.T.E. 01-20 inputs order dated July 11, 2002. For the reasons discussed below, the conclusions reached by the Department with respect to these five conclusions – one regarding the assumed cost of capital, two regarding key inputs or assumptions for estimating outside plant costs, one concerning switching costs, and one regarding the level of non-recurring charges for hot cuts – are the result of mistake or inadvertence, and AT&T respectfully asks the Department to reconsider and modify these conclusions to conform to the record evidence. A motion for reconsideration is appropriate if the Department’s treatment of an issue was the result of mistake or inadvertence. *Massachusetts Electric Company*, D.P.U. 90-261-B, at 7 (1991); *New England Telephone and Telegraph Company*, D.P.U. 86-33-J, at 2 (1989); *Boston Edison Company*, D.P.U. 1350-A, at 5 (1983). With respect to hot cuts, AT&T also respectfully requests that the Department clarify (or, if necessary, reconsider) its order that Verizon work with CLECs to develop a more efficient, less expensive alternative to one-at-a-time hot cuts. AT&T sets forth its analysis of these issues in the same order in which they appear in the Department’s decision.

Argument.

I. COST OF CAPITAL.

The Department adopted (i) a cost of equity capital of 12.75 percent, (ii) a cost of debt of 7.55 percent, and (iii) a capital structure of 75 percent equity and 25 percent debt. *D.T.E. 01-20* at 78. The net result of these decisions is a weighted average cost of capital (“WACC”) of 11.45 percent $[(12.75 \times 0.75) + (7.55 \times 0.25) = 11.45]$. *Id.* AT&T respectfully urges the Department to reconsider how much the cost of equity capital, and thus the WACC, are increased to reflect

assumptions about the extent to which competition in the retail market could result in stranded investment and thereby negatively affect Verizon's return on investment and increase its cost of capital.

The Department properly found that retail competition would not drive up Verizon's cost of capital unless such competition is likely to leave Verizon with stranded network investment, as explained in Section I.A below. Verizon's own evidence demonstrates, however, that there is no reason to believe that there will in fact be any such stranded investment, as discussed in Section I.B. The Department inadvertently overlooked this key evidence in its cost of capital analysis, making reconsideration appropriate.

Thus, the cost of equity capital and resulting WACC selected by the Department reflect a premium or increase, above what one would expect in the absence of any proof of a material risk of stranded investment, that cannot be justified by Verizon's proof or by the Department's findings of fact regarding the state of, and prospects for, competition in Massachusetts. We know from the Department's order and Verizon's evidence that in the absence of a risk of stranded investment we would expect Verizon's WACC to be approximately 9.56 percent, as explained in Section I.C. If the Department still feels that this is too low, a more reasonable premium or increase – that would better comport with the record evidence – would be no more than 0.4 to 0.8 percentage points above this level. This would still represent a substantial increase, of from 4.2 percent to 8.4 percent, in the cost of capital on the ground of potential competitive risk.

A. As the Department Found, Greater Competition – Even from Facilities-Based Providers – Will Not Increase Verizon's Cost of Capital Unless It Carries a Risk of Stranded Investment.

The Department correctly found that heightened retail competition would not increase Verizon's cost of capital unless it resulted in stranded investment. In the Department's words:

[A]s we did in the Phase 4 Order, the Department must determine whether “the level of business risk faced by [Verizon] with regard to the provision of unbundled network elements is higher than that which would apply to a monopoly bottleneck facility, a facility that, by definition, is not subject to bypass.” *Id.* at 44. This bypass occurs when CLECs serve customers primarily using the CLECs’ own facilities. ***In terms of competitive risk for Verizon***, it does not matter whether a facilities-based CLEC or other provider competes in the provision of UNEs as a wholesale product or competes only for end-use customers; ***it only matters whether the loss of a customer could leave Verizon with stranded network investment***. Thus, Verizon’s capital risk for purposes of a TELRIC study will include competitive risks from facilities-based competition, but will not include competitive risks from UNE-based or resale competition.

D.T.E. 01-20 at 70-71 (emphasis added).

This is because “[t]he cost of capital measures the return investors can expect on investments of comparable risk” *D.T.E. 01-20* at 59. So long as Verizon’s facilities are in use and thus are generating revenue, at rates set either by the Department or by Verizon (depending upon the service), Verizon’s return on investment will be unaffected by the possibility that competitors will install additional facilities that may also be in use providing additional services.

The Department went on to find that Verizon has provided evidence that it faces competition not only from CLECs making use of UNEs or resale, but also “from facilities-based CLECs and from alternative-technologies providers.” *Id.* at 72.¹ Finally, the Department concluded that “[t]hese companies offer ***alternative methods*** of providing voice and data services that ***are being used to bypass the local loop*** and will continue to on a going forward basis ***and could leave Verizon with stranded investment***.” *Id.* at 73 (emphasis added).

¹ AT&T continues respectfully to disagree with the Department’s conclusions regarding the likely levels of competition in the retail market, but that is not the basis for this portion of AT&T’s motion for reconsideration. Instead, AT&T submits that the Department was mistaken in its conclusion that such competition would necessarily result in stranded investment. For the reasons explained in the rest of this Section, that conclusion cannot be squared with the evidence.

It was the last step in this analysis, the conclusion that facilities-based competition can be assumed to create a material risk of substantial stranded investment, that was mistaken. In taking this last step, the Department inadvertently overlooked evidence from Verizon to the contrary.

B. The Department's Assumption that Risk of Stranded Investment Would Increase Verizon's Forward-Looking Cost of Capital Was Mistaken, As It Is Inconsistent With the Evidence and Would Lead to Double Counting.

As discussed below, the Department's conclusion that Verizon's forward-looking cost of capital would be higher because of a risk of stranded investment was the result of mistake or inadvertence. Indeed, even the Department's assumption that there could in principle be material levels of stranded investment in the telecommunications industry has not been proven. The Department is a national leader in electricity deregulation, and has grappled extensively with the question of stranded investments in that industry. However, as the Department well understands, there are critical differences between the telecommunications and electricity industries, and analogizing between the two can lead to erroneous conclusions. In the telecommunications industry, technological, market, and other factors suggest that stranded plant will be rare or nonexistent even in the face of future facilities-based competition. *See, e.g.,* William Baumol *Proper Investment Incentives, Stranded Cost Recovery and Differences Among Industries*, 2000 LAW REVIEW OF MICHIGAN STATE UNIVERSITY DETROIT COLLEGE OF LAW 139; R. Glenn Hubbard and William Lehr, *Telecommunications, the Internet, and the Cost of Capital*, Chapter 6 in *THE INTERNET UPHEAVAL: RAISING QUESTIONS, SEEKING ANSWERS IN COMMUNICATIONS POLICY* (2002) (Vogelsang and Compaine, eds.). Before the Department can reach conclusions on the appropriate cost of capital based on an assumption of stranded investments, there must be some factual exploration of the likelihood and impact of potential stranding in the telecommunications industry. The current record evidence does not support the Department's assumption that stranding will necessarily occur in Massachusetts.

Even assuming that stranded investments may be a matter of concern in the context of telecommunications, the simple facts are that the record evidence in this case proves there is no material risk that Verizon will face a risk of stranded investment, and that even if there were such a risk Verizon is already fully compensated for it through fill factors and through shorter depreciation lives.

1. Verizon Made No Showing of Likely Stranded Investment, and Its Own Forecasts Rebut Any Such Assumption.

Even if the Department is correct in predicting that facilities-based CLECs will capture a larger share of a growing retail market, Verizon's "Business Plan access line forecast" confirms that the Department should expect Verizon's facilities to remain in use serving both Verizon's retail customers and its wholesale demand from CLECs through UNEs or resale. Exh. ATT-VZ 4-29-2S. In the Department's words, from a section of its decision unrelated to cost of capital, "the forecast data provided in Exh. ATT-VZ 4-29-2S, Att.-P at 3 support an assumption of a 1.5 percent line growth during the planning period." *D.T.E. 01-20* at 302. Consistent with this actual business forecast, in its switching cost study Verizon projected the number of access lines to be served by Verizon "based on an overall estimated growth rate of 1.5 percent per year, approximately 1 percent for residential lines and 2 percent for business lines." Exh. ATT-VZ 4-29-2S. Verizon stressed that "[i]t should be noted that the precise growth rate in access lines (within a range of plus-or-minus 5 percent) has little impact on the results of the cost model." *Id.*

In sum, Verizon is estimating that over the period during which these UNE rates will be in effect Verizon will experience a 1.5 percent annual growth in the total number of access lines it serves, whether for retail customers or for CLECs offering service via UNEs or resale, net of the impact of expected facilities-based competition. Certainly Verizon cannot at this stage challenge the accuracy of its own forecast or the assumptions it used in its own cost study.

Cf. DTE 01-20 at 511 (“the OSS costs should be allocated based on the total number of access lines, in this case projected from 2002 through 2007 as provided in Exh. ATT-VZ 4-29-2S.”).

Since Verizon’s own evidence shows that the demand for its facilities will continue to increase, there is no material risk of stranded investment. Verizon has therefore not met its burden of proving that such a risk justifies any increase in the cost of capital, and the Department’s conclusion to the contrary was mistaken.

2. In Any Case, Verizon Is Already Compensated for the Possibility That Some Loops Could be By-Passed Through Fill Factors and Shorter Depreciation Lives.

Furthermore, any theoretical possibility that retail competition could lead to a small amount of stranded investment is already accounted for through fill factors and shorter depreciation lives that permit Verizon to increase UNE rates.

The Department’s findings with respect to Verizon’s fill factor claim regarding competitive threat are relevant to the proper treatment of the same issue as it bears on the cost of capital. The Department found as follows in its fill factor analysis:

With respect to adjustment for loss to competitors, Verizon provided an AT&T press release to substantiate its proposed ten percent adjustment for loss to competitors (Exh. DTE-VZ 1-6, Att. 2). We do not find this document sufficient to support Verizon’s proposal. As many of Verizon’s competitors would still use Verizon’s loop facilities and generate revenue for Verizon, only competitive loss not associated with Verizon’s loop facilities should be taken into account. Verizon has failed to make an affirmative showing that the ten percent estimate is a loss to facilities-based competitors or services that are not using Verizon’s network. We direct Verizon to reduce the adjustment for loss to competitors to three percent, i.e., approximately one-third of Verizon’s proposed adjustment, in order to account for the fact that a significant level of competition occurs using Verizon’s loop facilities.

D.T.E. 01-20 at 185.

These findings suggest two important things. First, in this separate section of its analysis the Department found that Verizon had not presented any credible evidence of a material threat

of stranded investment, and concluded that even as a matter of unsupported possibility Verizon could not assume that more than three percent of its access lines would go unused due to competitive bypass over a five-year period. Second, and perhaps more significantly, the Department fully compensated Verizon for this risk in the fill factor. As a result, Verizon will be charging higher UNE rates that will make it whole for the maximum estimated potential stranded investment. To increase rates a second time by adjusting the cost of equity capital upwards for the same reason would result in inadvertent but nonetheless improper double counting.

In addition, the Department adopted shorter depreciation lives than in the 1996 *Consolidated Arbitrations* proceeding, in order to account for “technological and market changes in the telecommunications industry over the past six years.” *D.T.E. 01-20* at 90. For example, the Department adopted lives that are 20 percent shorter for digital switches, 9 percent shorter for aerial metallic cable, and 13 percent shorter for buried metallic cable. *Id.* at 88. Retirement of equipment due to technological change is not an issue of stranded investment, whether the replacement equipment is installed by Verizon or some facilities-based competitor. *See* Baumol, 2000 LAW REVIEW OF MICHIGAN STATE UNIVERSITY DETROIT COLLEGE OF LAW at 146 (“[E]quipment scheduled to be replaced or abandoned due to technological change cannot possibly be stranded. It would have been disposed of whether or not competitive entry had been permitted or carried out.”) More importantly, it is not reasonable to compensate Verizon for the risk of technological changes by shortening depreciation lives and thereby increasing UNE rates, and then to compensate Verizon a second time through a substantial increase in the assumed cost of capital.

C. The Evidence and the Department's Findings Point to a WACC of 9.56 Percent, or At Most 9.96 to 10.36 Percent.

The Department rejected all of the cost of equity models presented in this proceeding. *D.T.E. 01-20* at 75-76. It nonetheless used the results of those models as the starting point against which it would assess the level of risk from the possibility of stranded investment. *Id.* at 78. The evidence as a whole, together with the Department's findings, show that this approach was also mistaken. The better approach is to begin by using Verizon's own evidence to update the Department's unchallenged finding regarding the WACC in the absence of stranded investment, and then to determine whether there is any basis in the record evidence for increasing the WACC above this neutral starting point.

The Department notes that several years ago it "determined that a cost of capital of 9.73 percent reflected the risk of investment in a telephone company with a retail monopoly in 1995." *D.T.E. 01-20* at 79. The evidence shows that capital costs have declined somewhat since then. Verizon's cost of capital witness recommended a 13.18 percent WACC in the 1996 *Consolidated Arbitrations* proceeding (using 1995 data), and a 12.95 percent WACC in this proceeding. Dr. Vander Weide agreed that he was "making the same assumptions, [and] doing the same analysis in this proceeding, and the only reason [he came] out at 12.95 percent rather than 13.18 percent is because [he was] using more recent data." Tr. 1 at 50-51. Since Verizon's own evidence shows that costs of capital are now about 1.75 percent lower, based on more recent data [$12.95 / 13.18 = 0.9825$], we would expect Verizon's WACC today to be about 9.56 percent so long as there is no material risk that it will have stranded investment [$9.73 * 0.9825 = 9.56$]. This happens to be almost identical to the 9.54 percent WACC proposed by AT&T, but it is in no way derived from or dependent upon the analysis presented by Dr. Hirshleifer.

It is not appropriate to use Dr. Vander Weide's recommendation as part of the starting point, because his recommendation is almost entirely a function of his untenable discounted cash flow ("DCF") analysis. The Department correctly found "that Verizon's DCF model uses a growth component that unreasonably assumes that Verizon will continue to grow at a rate significantly above the growth rate of the U.S. economy," and that "[a] cost of equity based on this unrealistic foundation lacks credibility." *D.T.E. 01-20* at 76. But this discredited DCF model is pretty much the entire explanation for Verizon's high cost of capital proposal. Dr. Vander Weide proposed a WACC of 12.95, which is 369 basis points higher than the 9.56 WACC we should expect in the absence of risk of stranded investment. According to Dr. Vander Weide, no more than 40 of these basis points will be explained by his recommended capital structure (which the Department adopted). Tr. 1 at 45. Verizon spent a substantial amount of time in this case arguing that the cost of capital should be evaluated with some DCF model that uses the S&P Industrials as the proxy group. See *D.T.E. 01-20* at 73. But Dr. Vander Weide conceded on cross-examination that this trivial issue in fact makes no difference whatsoever. Indeed, he explained that some of his own DCF runs using telecommunications companies as proxies ended up producing *higher* cost of equity estimates than his DCF runs using the S&P Industrials as proxies. Tr. 1 at 47. He therefore conceded that the choice between these two proxy groups "doesn't have a material impact," which means that there is no reason to believe that it will drive up the cost of equity or the resulting WACC. Tr. 1 at 47.

Since the choice of capital structure explains at most 40 basis points, and the choice of proxy groups has no material effect at all, almost all of the extra 369 basis points sought by Verizon was entirely a function of Dr. Vander Weide's discredited assumption that Verizon will grow substantially faster than the economy as a whole, and do so forever.

Thus, the appropriate starting point for the Department's consideration of competition risk is the neutral WACC of 9.56 percent. Since the record evidence – specifically, Verizon's own line forecast – shows that Verizon is not in danger of being stuck with any stranded investment, there is no evidentiary justification for adoption of a higher WACC. The Department noted that it would not judge the reasonableness of its cost of capital conclusions by looking at the results reached in other states, "because those states have based their determinations on the competitive conditions in their particular state." *D.T.E. 01-20* at 80. By the same token, in the absence of proof that Verizon faces a risk of stranded investment in Massachusetts, it would be inappropriate to justify a higher WACC for Massachusetts on the ground that the Department has made state specific findings regarding the extent of competition in Massachusetts. Verizon failed to present any evidence that the competitive threat it faces in Massachusetts is more severe than in New York or other states. In the absence of such evidence, the mere existence of competition is no proof that Verizon would face a higher cost of capital for Massachusetts even if it financed its operations on a state-by-state rather than on a regional basis (which it does not). In any case, since Verizon itself proved that it **does not** face a risk of stranded investment in Massachusetts over the next five years, it was a mistake for the Department to increase the WACC substantially under the erroneous assumption that such a risk could materialize.

In sum, the record evidence and the Department's own findings indicate that the best estimate for the overall WACC is 9.56. Alternatively, giving Verizon the benefit of every reasonable doubt, the Department could conclude that a result 40 basis points higher is appropriate. (As noted above, the testimony of Verizon's witness shows that the capital structure selected by the Department would at most increase the WACC by 40 basis points, and that the

rest of the increase over neutral levels proposed by Verizon came from its discredited DCF analysis). This would be a WACC of 9.96 percent, which (given the Department's findings regarding capital structure and the cost of debt) implies a cost of equity of 10.76 percent. This is a material increase of 4.2 percent, which in turn will materially increase UNE rates above what is indicated by the evidence.

In discussing the distribution fill factor, the Department observed that "Verizon seeks comprehensive protection from all possible sources of uncertainty in serving the local exchange market." *D.T.E. 01-20* at 182. The Department explained that Verizon was not entitled to such protection, because it is not "the purpose of TELRIC to insulate Verizon from all uncertainty." *Id.* This observation carries the same force with respect to the cost of capital as it does with respect to fill factors. On this record, if the Department wished to adopt an even higher WACC designed to "insulate Verizon from all uncertainty," it could double the cushion and add 80 basis points to the neutral starting point, to yield a WACC of 10.36 percent (which implies a cost of equity of 11.30 percent). AT&T respectfully submits that such a result is not indicated by the evidence, but further states that anything higher would be flatly inconsistent with Verizon's own proof that it does not face any risk of stranded investment over the relevant time frame.

II. OUTSIDE PLANT INPUTS.

A. Although the Department Substantially Reduced the UDLC Percentage from What Verizon Proposed, Its 19.6 Percent Assumption on a Statewide Basis Is More Than Twice the Maximum Level Consistent With Verizon's Evidence.

Another important inputs issue is the proper forward-looking mix of IDLC and UDLC technologies for fiber-fed loops. *See D.T.E. 01-20* at 145, *et seq.* The Department assumed that the current IDLC:UDLC ratio of 2:1 would continue in a forward-looking network. *Id.* at 159. Since the Department had separately estimated that its rulings regarding the cost-effective breakpoints for choosing between copper and fiber feeder would result in about 41.2 percent of

all lines statewide being served on copper feeder, its 2:1 ruling means that approximately 39.2 percent of loops will be served by IDLC fiber feeder, and 19.6 percent will be served on UDLC. *Id.* at 160.

AT&T respectfully submits that the Department's assumption that the current 2:1 ratio is forward-looking is mistaken, and cannot be squared with the evidence. In addressing this issue, the Department erred by incorrectly shifting the burden of proof from Verizon to AT&T, and by misinterpreting the record. AT&T pointed out in its reply brief (at pages 85-87) that there is no evidence showing that more than 10 percent of all fiber-fed loops would require UDLC. The Department's treatment of this point was as follows:

Regarding AT&T's proposal that UDLC should be based on Verizon's forecast of the total wholesale loops, we note that AT&T made the proposal for the first time in its reply brief. We reject the proposal for the following reasons. First, AT&T should have made this proposal earlier in the proceeding so that the Department could fully investigate the reasonableness of the proposal. Second, no party objects to Verizon's argument that provisioning unbundled stand-alone loops is not the sole function of UDLC; UDLC is needed for other purposes. Furthermore, the record indicates that UDLC is used in areas that have unknown service requirements and for services that cannot be integrated, such as unbundled loops and non-switched services (see Exh. ATT-VZ 3-5, at 16). The record also indicates that no RT should be fully integrated, and the ratio of IDLC to UDLC is RT-site dependent (see id.; see also Tr. 17, at 3498). Therefore, it would be inappropriate to base the proportion of UDLC solely on wholesale UNE loops demand growth.

D.T.E. 01-20 at 158. These conclusions were mistaken, and merit reconsideration and modification, for the following reasons.

First, the Department incorrectly treated this evidentiary issue as an affirmative "proposal" on which AT&T bears the burden of proof. As a general matter, the Department correctly held that "Verizon has the burden of proof with regard to the calculation of incremental costs of UNEs." *D.T.E. 01-20* at 24. It added that, "[n]evertheless, where a Verizon opponent has presented an alternative proposal it asserts to be TELRIC-compliant, that party has the

burden of proof with regard to its own affirmative case.” *Id.* at 24-25. Throughout the inputs order, the Department uses the term “proposal” to describe an aspect of a parties’ affirmative case on which it bears the burden of proof. In faulting AT&T for making this “proposal” for the first time in its reply brief, the Department was improperly shifting the burden of proof from Verizon to AT&T on this point.

AT&T’s observations regarding the inconsistency between the record evidence and Verizon’s UDLC assumptions do not constitute an affirmative proposal that AT&T must prove. To the contrary, they concern a key assumption regarding Verizon’s LCAM model, on which Verizon bears the burden of proof. As explained below, it is Verizon that failed to prove that a forward-looking network would require that any more than ten percent of fiber-fed loops be on UDLC rather than the much more efficient IDLC.

Second, the Department’s statement that “no party objects to Verizon’s argument that provisioning unbundled stand-alone loops is not the sole function of UDLC” misses the thrust of AT&T’s observation regarding the record evidence. As the Department goes on to note, the only two uses for UDLC that Verizon ever identified were for (i) unbundled loops and (ii) non-switched private lines. *See D.T.E. 01-20* at 158; *see also* Tr. 9, at 1852 (Gansert); Exh. ATT-VZ 3-5, at 16. But the key point regarding non-switched private lines, which the Department inadvertently overlooked, is that Verizon never identified any evidence showing that the aggregate demand for non-switched private lines would come close to the level of demand for unbundled loops, or even that it would be material at all. *See* AT&T’s Reply Brief at 85.

Third, Verizon’s guidance that the ratio of IDLC to UDLC is Remote Terminal (“RT”) - site dependent (see Exh. ATT-VZ 3-5, at 16) has no impact whatsoever on the proper assumptions of UDLC proportions for each density zone. By way of comparison, the

Department has determined how Verizon is to calculate the percentage of copper feeder in each density zone, despite the fact that in a forward-looking network the actual share of copper will differ among serving area interfaces throughout the density zone. *See D.T.E. 01-20* at 144. It makes just as much sense to estimate the overall level of UDLC on an average basis, for the purposes of setting TELRIC-compliant UNE rates, as it does to do the same thing regarding overall levels of copper feeder.

In any case, even if the Department is not prepared to set the proportion of UDLC equal to the projected demand for unbundled loops, there is a lot of space between the 10 percent level that is supported by Verizon's evidence and the Department's assumption that 33.33 percent of all fiber-fed loops would have to be served on UDLC in a forward-looking network. Even if more than 10 percent UDLC were needed in order to have some extra fiber-fed capacity for non-switched private lines or for minor (but unproven) variations among RTs, a fifty percent increase – from 10 to 15 percent UDLC – should be more than adequate. Certainly, Verizon has failed to meet its burden of proving the need for any more than 15 percent of fiber-fed loops to be served on UDLC. Furthermore, a UDLC proportion of 15 percent (or even of 10 percent) is perfectly consistent with the evidence cited by the Department suggesting that Verizon will always have some, unspecified level of UDLC in all RTs. *See D.T.E. 01-20* at 158 (citing Tr. 17, at 3498; Exh. ATT-VZ 3-5, at 16).

Since the record evidence shows that on a forward-looking basis a greater proportion of the more-efficient IDLC technology than what is in place today is feasible, it was a mistake for the Department not to adopt the more efficient network configuration as the basis for setting TELRIC-compliant UNE rates. It is undisputed that IDLC is much more efficient than UDLC. *See* Tr. 13, at 2590-2591; AT&T's Initial Brief at 115-117 and evidence cited therein. The mere

fact that the current IDLC:UDLC ratio is 2:1 does not mean that this happenstance reflects the most efficient deployment of this technology. “[T]he forward-looking practice of a carrier does not necessarily equate to the historical practice of the carrier.” *D.T.E. 01-20* at 171. With respect to fill factors, the Department said that it does “not believe that the fact that Verizon’s existing 40 percent fill factor has been stable demonstrates its reasonableness for a forward-looking cost study per se.” *Id.* at 181. Similarly, the mere fact that the 2:1 IDLC:UDLC ratio exists today does not demonstrate its reasonableness for TELRIC purposes, especially in the face of evidence to the contrary. As the Department has noted, under TELRIC one must assume that “the reconstructed local network will employ the most efficient technology for reasonably foreseeable capacity requirements.” *D.T.E. 01-20* at 14, quoting *FCC’s First Local Competition Order* at ¶ 685. TELRIC models “should correspond with the deployment of feasible least-cost technology and practices that are achievable by the ILEC.” *D.T.E. 01-20* at 48.

Thus, even if the Department is not prepared to adopt the assumption that 10 percent of fiber-fed loops would be on UDLC, the maximum share that is consistent with the evidentiary record would be 15 percent. On a statewide basis, this would mean that the copper/IDLC/UDLC proportion should be approximately 41.2/50/8.8. AT&T respectfully urges the Department to make this change to its inputs order.

B. In Calculating the Per Unit Costs of the Loop, Verizon Must Account for Expected Growth in Demand.

Under the TELRIC pricing methodology, “the per-unit costs associated with a particular element must be derived by dividing the total cost associated with the element by a reasonable projection of the actual total usage of the element.” *FCC’s First Local Competition Order*, ¶ 682. This total usage for the element is to include the demand by CLECs and the usage by Verizon for its own retail customers. 47 C.F.R. § 51.511(a). The Department erred by not

requiring Verizon to calculate per-unit costs associated with the loop based on a reasonable projection of the actual total usage of the loop element.

Mr. Baranowski, a witness for AT&T and WorldCom, had recommended that the Department require that per unit loop costs reflect a three percent annual demand growth adjustment. *See* AT&T's Initial Brief at 139-140, and evidence cited therein. However, the Department has now determined that the record evidence demonstrates that the proper assumption is for a 1.5 percent annual growth in demand for access lines. *DTE 01-20* at 302 (“[T]he forecast data provided [by Verizon] in Exh. ATT-VZ 4-29-2S, Att.-P at 3 support an assumption of a 1.5 percent line growth during the planning period.”). In order to be consistent across elements, the same 1.5 percent demand growth should be reflected as an adjustment to loop rates.

If the demand for loops will increase by 1.5 percent per year, then the total loop investment estimated by Verizon's models (as revised in accord with the Department's orders) should be recovered from materially more users than reflected in current demand levels. This fundamental issue is separate and apart from the Department's fill factor rulings, and needs to be accounted for in a separate adjustment. The Department agreed with this point in principle (*D.T.E. 01-20* at 183), but did not order Verizon to make the adjustment required to implement this point in practice. AT&T respectfully requests that the Department order Verizon to make the adjustment for growth in loop demand as shown in Mr. Baranowski's workpapers, but to assume a 1.5 percent annual demand growth in order to maintain internal consistency.

III. THE NEW SWITCH DISCOUNT IS TOO LOW AND THE RESULTING SWITCH MATERIAL PRICES ARE TOO HIGH, AS THE DEPARTMENT INADVERTENTLY OVERLOOKED VERIZON’S CONCESSION REGARDING THE PRICES THAT VERIZON ACTUALLY PAYS FOR NEW SWITCHES THROUGH COMPETITIVE BIDS.

The assumed discount from list price – and the resulting assumed uninstalled switch material price per line – is a key input in the estimation of forward-looking unbundled switching costs. The Department was “not persuaded by Verizon’s argument that its actual year 2000 purchases of Lucent switching equipment and its contract price for Nortel switching equipment are reasonably representative of forward-looking efficient switching costs...” *DTE 01-20* at 302. Nonetheless, the Department ultimately used the contract price for Nortel switching equipment because it could not discern in the record what alternative number to use. *DTE 01-20* at 306-307. The Department “note[d] that although Verizon faults the price that AT&T infers from RR-DTE-49-S, Verizon does not offer a revised figure but simply states that with appropriate adjustments, the Nortel bid price would be ‘much higher’ than a proprietary figure indicated in its brief, but does not indicate what this higher figure would be.” *DTE 01-20* at 306 (citing Verizon Reply Brief at 67.)

This conclusion was mistaken, as it inadvertently misread the statement in Verizon’s reply brief regarding the meaning of its record request responses with data on new switch purchases. In fact, Verizon did offer a specific revised figure for the proper uninstalled material price per line for new Nortel switches. The “much higher” number described in Verizon’s reply brief would be the result of applying the installation and many other factors used to gross up the material price in order to estimate a total forward-looking cost, and thus it is irrelevant to the antecedent question of what switching discount and thus what uninstalled switch material prices one should use to begin the analysis. The subsequent number referred to but not specified by

Verizon is an intermediate result, and is not the uninstalled switch material price or discount used as an input to the SCIS model.

This important point should be clearer after summarizing the development of this portion of the evidentiary record.² It will be apparent from this review of the record evidence that the Department mistakenly adopted a new switch discount for Nortel switches of **<BEGIN Vz PROPRIETARY> xxxx <END Vz PROPRIETARY>** percent, while Verizon's own evidence demonstrates that the correct discount is **<BEGIN Vz PROPRIETARY> xxxx <END Vz PROPRIETARY>** percent.

Verizon's switching cost models are in two parts. First, Verizon uses the SCIS model to estimate the material cost for switches. One of the inputs to SCIS is the discount from list prices that will be obtained from Nortel and Lucent. SCIS takes that input and other information and derives total switch material costs, which can be expressed on a per line basis. Second, Verizon then takes the outputs of its SCIS runs and uses them as inputs to its switch cost workpapers. Verizon grosses up the switch material prices to account for additional costs, including: the cost of engineering, furnishing, and installing each switch (through the EF&I factor); costs of capital, depreciation, taxes, and other annual carrying charges (through the ACF factors); costs of power, land, building expenses, and common overhead (through separate factors).

² The genesis of the lingering confusion as to the proper uninstalled switch material price – and the associated discount from list prices – is Verizon's inexcusable delay in providing the relevant information. As the Department noted, "AT&T sought information from Verizon in May 2001 regarding prices paid for new switches, but Verizon did not provide the information...." *DTE 01-20* at 305. It was not until "February 2002, in response to a Department record request," that Verizon "provid[ed] information for the first time on the discounted prices that it paid for new Nortel switches...." *Id.* And it was not until Verizon filed its Reply Brief on March 29, 2002, that Verizon for the first time acknowledged what switch material price per line was demonstrated by this late-filed evidence of new switch purchases. If Verizon had provided all of this information in a timely manner, AT&T would have had the opportunity to clarify this point through cross-examination and its briefs, and Verizon would not have been able to confuse the issue through its Reply Brief.

When Verizon ran the SCIS model for its cost study, it used the **<BEGIN Vz PROPRIETARY> xxxx <END Vz PROPRIETARY>** percent discount shown in its regular contract with Nortel, which when run through the SCIS model produced an uninstalled switch material price of \$82.62 per line. *See DTE 01-20* at 305; Exh. VZ-37, Parts C-P1, C-P3; AT&T Initial Brief at 61-62. In February 2002, Verizon filed a record request response indicating that it actually purchases its new switches through competitive bids, not under its existing contracts. The FCC had asked Verizon to report “[w]hat vendor price switch discount did Verizon obtain” for new switches that it purchased through a competitive bid, and Verizon responded by reporting that it had obtained discounts from Nortel ranging from **<BEGIN Vz PROPRIETARY> xxxxxxxxxxxxxx <END Vz PROPRIETARY>** percent. *See* Verizon-VA’s Response to the FCC’s RR VZ-VA-32, in the proprietary attachment to RR-DTE-49S, cited in *DTE 01-20* at 305. AT&T took the lower of these actual new switch discounts as calculated and reported by Verizon, ran it through Verizon’s own SCIS model, and found that the resulting material investment per POTS line for new switches came out to \$17.35. *See* AT&T’s Initial Brief at 64; *DTE 01-20* at 278. As AT&T stated in its brief, this represents the uninstalled switch material price resulting from the new switch discount reported by Verizon to the FCC; loadings for installation and other costs would be added to this figure through the second portion of Verizon’s switch costing models.

In its reply brief, Verizon asserted that AT&T had misinterpreted the new switch discount that Verizon reported to the FCC. According to Verizon, this discount only reflects the pricing “on any *Nortel manufactured switching hardware*,” and is “*not* – as AT&T assumes – the effective overall discount achieved in the bid.” Verizon’s Reply Brief at 66.

The Department mistakenly and incorrectly read Verizon's reply brief as arguing that "the Nortel bid price would be 'much higher'" than this <BEGIN Vz PROPRIETARY> xxx <END Vz PROPRIETARY> per line figure. See DTE 01-20 at 306, citing Verizon's Reply Brief at 67. What Verizon actually said is that this figure "is for switch material from Nortel and includes *no loading* for other costs such as power, MDF and EF&I," and that after "application of Verizon MA's factors" to gross up the material price and account for these other costs, the final result would be "much higher." Verizon's Reply Brief at 67. But these loading factors for installation, power, *etc.*, are accounted for elsewhere in Verizon's cost models. For example, the Department adopted a 29 percent EF&I factor for switching. The fact that the final installed and fully loaded switching cost will of necessity be "much higher" than the uninstalled switch material price does not create any doubt or ambiguity regarding the specific number that Verizon has conceded is the proper material price for new Nortel switches.

In sum, for Nortel switches, the proper new switch discount as shown by Verizon's own evidence and its own interpretation of that evidence is <BEGIN Vz PROPRIETARY> xxxx <END Vz PROPRIETARY> percent, and not the contract pricing discount of <BEGIN Vz PROPRIETARY> xxxx <END Vz PROPRIETARY> percent that was mistakenly adopted by the Department.

A similar adjustment must be made for the Lucent new switch price discount. The Department adopted a Lucent new switch discount of <BEGIN Vz PROPRIETARY> xxx <END Vz PROPRIETARY> percent, or 0.59 percentage points less than the Nortel discount it adopted. See DTE 01-20 at 305, citing RR-DTE-66, Attachment 1, Line 2. Given Verizon's concession regarding the proper new switch pricing by Nortel, it would make no sense to assume that going forward Lucent could get away with selling switches for much higher prices. As the

Department noted, “[t]he substantially lower cost of Nortel switches shown in Verizon’s proposed cost study undermines Verizon’s reliance on [much higher] Lucent switch costs in a forward-looking efficient cost study.” *DTE 01-20* at 306. The reason is straightforward: the assumption of a substantial difference in switch material prices per line between Lucent and Nortel switches “is not rational and does not accurately reflect the pricing that exists in the highly competitive switch vendor market.” Ex. ATT-20, Pitts Revised Rebuttal at 20. Since the evidence clearly shows that the new switch discount for Nortel is much lower than the contract price, the correct TELRIC-compliant new switch discount for Lucent should be similarly lower. Consistent with the Department’s findings, the correct new switch discount for Lucent should be <BEGIN Vz PROPRIETARY> xxxx <END Vz PROPRIETARY> percent, or the same 0.59 percentage points lower than the correct new switch discount for Nortel.

IV. STAND-ALONE HOT CUTS AND ALTERNATIVE LOOP PROVISIONING METHODS.

AT&T and other parties demonstrated that the exorbitant hot cut NRCs proposed by Verizon would make it commercially impossible for CLECs to provide service using unbundled loops. The result will either be to discourage facilities-based competition by forcing CLECs to rely on UNE-P rather than install their own switch and use UNE-L, or to make competitive entry impossible since for the most part CLECs will be unable to replicate Verizon’s ubiquitous outside plant. In response the Department did two things.

First, the Department took a hard look at the specific tasks and associated work times for hot cuts contained in Verizon’s NRC study, and directed Verizon to make a number of specific reductions in the forward-looking adjustment factor (“FLAF”) for specified tasks. *See D.T.E. 01-20* at 494-499. The Department’s order did not fully reflect the implications of the Department’s findings, however, because it inadvertently failed to require further FLAF reductions that are needed to ensure consistency throughout Verizon’s NRCM.

Second, the Department also “direct[ed] Verizon to examine carefully the components of the hot cut process and to develop a less costly alternative for CLECs that Verizon would offer as an alternative to the hot cut process modeled in Verizon’s NRCM.” *D.T.E. 01-20* at 499. AT&T applauds this directive, but moves for clarification to ensure that this examination not be limited to the frame due time option currently available in Texas, but that either instead or in addition Verizon work in a collaborative manner with interested CLECs to define and estimate the cost of a forward-looking, high-volume customer cutover process. Separately, it is vitally important that the Department move forward expeditiously in Docket 98-57, Phase III, to investigate and adopt appropriate orders to implement electronic loop provisioning (“ELP”).³ But though ELP is vital to the long-term viability of local exchange competition, it is neither an instant nor a complete solution to the heavy burden of expensive hot cuts. Even once ELP is in place, the need for a more efficient way to provision copper-fed loops will remain. Thus, the need for another alternative to the expensive individual hot cuts currently offered by Verizon remains. Verizon has been able to implement a high volume customer cutover process with CLECs in both Massachusetts and New York. Consistent with the Department’s directive to find

³ As explained in AT&T’s Initial Comments Regarding the Need for Prompt Resolution of Issues concerning CLEC Access to and Interconnection With Fiber-Fed Loops, filed Docket 98-57, Phase III, on June 24, 2002, Verizon has announced plans to deploy its Project PARTS network architecture in Massachusetts to allow electronic transfer and routing of data signals. SBC has publicly represented that the “capital and expense savings” from its similar Project Pronto will pay for the entire initiative, and in only three years. SBC Investor Briefing at 2 (Oct. 18, 1999). A modest additional investment would allow electronic transfer and routing of voice signals as well. The simple electronic loop provisioning that would then be available for all customers served over the upgraded network architecture would be speedy and accurate, allowing Massachusetts consumers real freedom of choice without the risk inherent in the current hot cut process. Moreover, easy and efficient electronic loop provisioning would encourage the development of the kind of facilities-based local competition this Department has sought to foster. Given the Department’s intent to establish a truly efficient alternative to the current hot cut process, AT&T strongly encourages the Department to establish an appropriate process to assure the appropriate deployment of new network architecture that allows the electronic transfer and routing of both data and voice signals, and to do so as quickly as possible.

an alternative to the current one-by-one hot cut process, Verizon should work with CLECs to formalize this alternative high volume cutover process and to make it available at TELRIC rates.

A. Further Reductions in the Hot Cut NRC are Necessary to Make it Forward-Looking in Compliance with TELRIC.

The Department properly recognized that if “Verizon’s hot cut cost study fails to incorporate proper forward-looking assumptions regarding efficient practices, the inappropriately high charge could impose a barrier to entry and, thus, could discourage the development of local competition within Massachusetts.” *D.T.E. 01-20* at 493-94. The Department also found that Verizon had produced no backup documentation whatsoever for its forward-looking adjustment factors (“FLAFs”). *Id.* at 494. Thus, Verizon has failed to meet its burden of proving that the hot cut NRC it sought complies with TELRIC.

The Department dealt with this failure of proof by Verizon by ordering a reduction in certain FLAFs for the work activities Verizon asserts are involved in the hot cut provisioning of a loop. However, additional reductions are necessary to reflect the efficiencies that the Department found would be expected in a forward-looking environment. While Verizon has not yet submitted its compliance filing, it appears that the reduction in FLAFs ordered to date by the Department will still result in a hot cut NRC that is still so high that it would be a tremendous barrier to competitive use of UNE loops. A close analysis of the alleged work activities reflected in Verizon’s hot cut analysis, in light of the specific adjustments ordered by the Department, demonstrates that significant additional reductions in the FLAFs should be made in order to establish a proper TELRIC hot cut NRC. The omission of these additional reductions from the Department’s inputs order was inadvertent.

Looking first at the CO Frame Activities, the Department ordered that the FLAF for activities 1 and 2 be reduced from 100 percent to 50 percent “based on an expectation of a more

automated, forward-looking environment.” *D.T.E. 01-20* at 497. Those two activities involve receiving notification of a pending hot cut and verifying the information. In Verizon’s model these two tasks take 9.99 minutes. Even with the 50 percent FLAF ordered by the Department, CLECs are being asked to pay for 5 minutes of time for what should be a fully automated task using efficient OSSs. The inputs order inadvertently fails to recognize that, at most, the frame technician should spend a few seconds receiving and reading a very short, computer generated message. A FLAF of 10 percent for these two tasks would still generously allow a minute for this activity. Similarly, the 60 percent FLAF ordered for CO Frame activity 15 fails to recognize fully the unnecessary manual nature of the activity. In Verizon’s NRCM 9.09 minutes are allocated to loading WFA tickets, checking status of order activity, and reporting completion to the RCCC. Again, efficient OSSs would enable these tasks to be done electronically, with minimal technician time needed. A FLAF of 10 percent for this task would allow almost a minute for this activity, which would more appropriately reflect use of forward-looking systems.

The Department properly eliminated CO Frame activities 17 and 18, because they involve field installation activity costs that are recovered through recurring rates. *D.T.E. 01-20* at 497. No other specific adjustments were made to the FLAF for the remaining CO Frame activities 4,⁴ 5, 6, 7, 10 and 22 and thus the default 20 percent reduction in the FLAF ordered by the Department now applies. Activities 5, 6, 7, 10 and 22 reflect a total time of almost 26 minutes for the actual hot cut activity itself. Three of the activities (5, 7 and 22) involve checking, confirming, and completing forms for a total of almost 13 minutes. The inputs order again inadvertently fails to recognize that such manual checking and confirming could be done

⁴ The Department properly ordered Verizon to reduce the occurrence factor for task 4 (travel to unmanned central offices), inadvertently labeled Task 3 on page 497 of the inputs order, based on the number of lines in unmanned offices as shown in response to RR-DTE-21.

much more quickly in an efficient environment. Again, a FLAF of 10 percent for these activities would reflect the efficient use of operation support systems.

With respect to the RCCC, the limited adjustments made by the Department to the FLAF for activities 3, 6, 18, 19, 20, 21, 33 and 34 are not sufficient to reflect an efficient coordination process. Activity 3 involves elimination of roadblocks from the order. In Verizon's NRC, the time for such activity is 9.5 minutes with a typical occurrence of 25 percent. The 50 percent FLAF reduction ordered by the Decision would still allocate significant time to eliminating roadblocks in 12.5 percent of all hot cuts. Consistent with the 2 percent forward-looking fallout factor the Department has determined is appropriate, the FLAF for this activity should be reduced to 10 percent. The 25 percent FLAF in the Decision for RCCC activity 6 still allows over three and a half minutes to be spent on "administrative checks." Efficient use of OSSs should allow such administrative checks to be performed automatically, with only minimal review time needed. A 10 percent FLAF, allowing almost a minute and a half for this activity, is more appropriate for a forward-looking calculation. Activities 18, 19, 20 and 21 involve contacting the CLEC, scheduling Verizon work teams, verification of activity and further CLEC communication. Even with the 50 percent FLAF ordered in the inputs order, these 4 tasks are scheduled to take more than 20 minutes. Efficient use of automated system should enable such coordination to occur in less than 10 minutes. Accordingly, the FLAF for these 4 tasks should be reduced to 25 percent. Finally, tasks 33 and 34 involve internal Verizon communication regarding postponement or cancellation (task 33) and tracking roadblocks and problems (task 34) which are projected by Verizon to occur in 15 percent of all hot cuts respectively. Again, application of a forward-looking fallout factor should significantly reduce the incidence of such postponements, roadblocks and problems, and use of efficient technologies should reduce the

time needed to perform such activities in the few cases in which they should occur. A FLAF of 25 percent, as opposed to the 60 percent specified in the inputs order, is more appropriate to establish a TELRIC NRC.

There are numerous other RCCC activities for which the Department inadvertently made no specific FLAF adjustment, despite the Department's finding that "[a]ctivity verification, inter-carrier-communication and scheduling should become more automated in the future." *D.T.E. 01-20* at 498. Activities 1, 2, 4 and 5, for example, are preliminary tasks which involve the screener accessing, analyzing and assigning the order to a technician, which total more than 13 minutes. Viewed as a single integrated task, which it should be, it is hard to see why it should take a screener more than two minutes to perform this simple task using efficient operation support systems. A FLAF of 20 percent for these activities still would result in more than 2-1/2 minutes being allocated to this task.

RCCC activity 22 allocates 9.34 minutes to reverifying a service order for due date minus 1 changes. Again, with efficient systems in place, calling up an order to "reverify" should take only a minute. A FLAF of 10 percent would be appropriate. Activities 23, 25 and 26 involve proceeding with the hot cut and total more than 44 minutes. It is important to remember, however, that the RCCC employee is not actually performing any of the physical tasks involved in provisioning a hot cut loop; that activity is being performed by the CO frame technician. Tr. 538 (Peduto). The activity descriptions reveal that the RCCC employee is simply contacting the CLEC, notifying the Verizon team to proceed and completing the order. This kind of routine communication falls squarely within the scheduling type activity which the Department has found should become more automated in the future. A FLAF of 10 percent would allow more than 4 minutes for this activity.

Finally, activities 37 and 38 involve RCCC involvement for restorals and service interruption. The Verizon NRCM assumes that these problems will occur in 5 percent of all hot cut orders with no forward-looking adjustment. In an efficient forward-looking environment the occurrence of such major problems should be much lower. CLECs cannot be effective competitors if Verizon is allowed to disconnect 5 percent of customers who seek to convert to a competitor's facilities. The very negative impression left on customers who experience such service outages and the resulting word-of-mouth information that gets back to other potential customers is very difficult for a CLEC to overcome in trying to attract new business. A FLAF of 20 percent would still recognize such major service problems in 1 percent of all hot cuts. Any higher rate of service disruption is simply unacceptable.

With respect to the RCMAC, the Department only reduced the FLAF for task 1. Even with the 50 percent FLAF ordered by the Department, almost 3-1/2 minutes is allocated to "obtaining notification from the RCCC." Because the Department has found that "internal Verizon communications about hot cut orders should become more automated in the future" (*D.T.E. 01-20* at 499), a further reduction to a 10 percent FLAF is appropriate to reflect the few seconds that obtaining a computer generated notification takes. RCMAC tasks 2 and 5 both relate to manual activity by the RCMAC for translation changes. Verizon's NRCM assures that such activities will be needed 5 percent of the time. This assumption is inconsistent with the 2 percent fallout figure the Department has ordered to be applied. The FLAF for these 2 activities should be reduced to 40 percent to reflect a 2 percent fallout factor requiring manual translation changes.

B. Verizon Should Be Directed to Explore an Additional Alternative to the Current, One-at-a-Time Hot Cut Process.

The Department properly required Verizon to offer an alternative provisioning process which does not require the extensive and expensive manual coordination work involved in the currently available individual hot cut process. *D.T.E. 01-20* at 499-500. Without efficient and significantly less expensive alternatives, the hot cut NRC will be a complete barrier to facilities-based competition using UNE loops. The existing process is cumbersome and slow. Furthermore, with non-recurring charges increasing to or even near the level that would result even after the FLAF reductions ordered by the Department are implemented, the existing one-at-a-time hot cut process will no longer be commercially viable. AT&T greatly appreciates the Department's recognition that it is critically important that new and more efficient alternative ways of provisioning unbundled loops be identified, implemented, and priced in accord with TELRIC.

AT&T requests that the Department clarify its decision to establish a timely collaborative process involving Verizon and interested parties to work out the details of such an alternative process or processes and their costs. In particular, AT&T requests that alternatives to the current hot cut not be limited to the Frame Due Time process employed by SBC in Texas, but include other more efficient options as discussed below.⁵

1. A High Volume Customer Cutover Process, Based on the Process Successfully Implemented in Massachusetts and New York, Should be Offered at TELRIC-Based Prices.

AT&T and Verizon have had recent successful experience in New York involving the coordinated cutover of large groups of CLEC customers to UNE loops, and AT&T understands

⁵ AT&T has had experience with this Frame Due Time process, and believes that it includes many inefficient steps.

that in Massachusetts and in other states Verizon has succeeded in implementing similar procedures for at least one other CLEC. This is very different from the one-at-a-time hot cut that is priced in Verizon's NRCM. This high volume cutover process offers a significantly more efficient alternative to the individual provisioning of hot cut loops.

This procedure starts by using UNE-P to provision a new customer. Customers remain on UNE-P until a critical mass of such customers is achieved in a central office, at which time a large group of such lines in a single CO are converted from UNE-P to UNE-L and connected to the CLEC's collocation facility and from there to the CLEC's switch. This high volume cutover process can be done far more efficiently than the conventional process. Typically, the cutovers can be done at night, when the risk of possible service disruptions is minimized. Use of new software and special project management procedures allow hundreds of lines to be cutover in a single night within a given central office, without the need for the RCCC to coordinate each cutover separately across multiple central offices. The process is greatly simplified by scheduling a larger volume of UNE loop cutovers in a single central office on a single date, rather than coordinating cutover dates and locations for each individual UNE loop with cutovers in different central offices all being coordinated simultaneously. Furthermore, by focusing on a group of UNE loop cutovers in a single central office, Verizon technicians can make all the necessary cross-connections more efficiently in that central office. The result is that the time it takes to prepare and provision each UNE loop on a per line basis is reduced dramatically.

As noted above, this process already has been used successfully in Massachusetts and New York. Verizon has converted tens of thousands of lines for AT&T in New York using this approach. In addition, another CLEC has been using this process in Massachusetts to cut over

thousands of lines over the past two years. Additional forward-looking enhancements that are under development will make this process even more efficient.

AT&T respectfully urges the Department to clarify its inputs order to require Verizon to work with AT&T and other interested CLECs to implement appropriate enhancements and improvements to the current, proven high volume cutover process, and to develop forward-looking TELRIC pricing for this process.

The individual hot cut NRC to be established in this proceeding would not be an appropriate forward-looking price for the high volume cutover process outlined above. Indeed, applying an NRC estimated for one-at-a-time hot cuts to this much more efficient high volume cutover process would allow Verizon to reap an unjustified windfall, and would not achieve the Department's important goal of developing a cost effective alternative to the current hot cut process. The price for such a high volume cutover process should be based on the forward-looking TELRIC costs of such an efficient process. AT&T urges the Department to clarify this Decision to require that this efficient high volume cutover process be available at forward-looking TELRIC prices.

2. As an Interim Measure, the Current Hot Cut Process Should Be Available for a \$35 NRC Until an Efficient High Volume Cutover Alternative is Available at TELRIC-Based Rates.

In the meantime, in order to assure that Verizon has the appropriate incentive to develop and implement necessary alternative processes in a timely fashion, the Department should order that a \$35 hot cut NRC, to which Verizon has voluntarily agreed in New York and New Jersey, be applied to the current hot cut process until such time as commercially viable alternatives are in place with TELRIC based rates. This will properly align the incentives. If Verizon is allowed to implement a substantial increase in its hot cut NRCs before the efficient alternative sought by the Department has been implemented and priced at TELRIC rates, Verizon would have every

incentive to drag its feet on implementing and fairly pricing such processes, instead allocating its resources to projects that do not provide such a benefit to its competitors. However, with a \$35 interim rate that will disappear when the high volume cutover alternative is available at appropriate TELRIC rates, Verizon will have every reason to complete the needed collaboration with AT&T and other CLECs expeditiously.

The Department should note that even with a \$35 interim hot cut rate, AT&T will still have a very strong incentive to ensure that needed improvements to the high volume cutover alternative are made and TELRIC pricing is implemented as soon as possible. That is because the high volume cutover process promises such substantial efficiencies for both Verizon and CLECs alike.

Moreover, as Verizon representatives testified, the hot cut process used is the same in Massachusetts and New York. Tr. 740-741 (Peduto). Verizon's voluntary acceptance of the \$35 hot cut NRC in New York, and again in New Jersey, is confirmation that this rate is sufficient for Verizon's business purposes. Accordingly, Verizon will not be unfairly prejudiced if a \$35 hot cut NRC is imposed as an interim measure until a more efficient alternative is in place. Under the Department's current order, however, CLECs will have no alternative to the one-at-a-time, very expensive coordinated hot cut until a new alternative is available at a TELRIC-based price. During the time it takes Verizon to develop alternative processes UNE-L and facilities-based competition in Massachusetts will languish. CLECs and their customers should not have to bear such a penalty because Verizon has not yet implemented an efficient, automated process at forward-looking, TELRIC rates.

Conclusion.

AT&T respectfully requests that the Department reconsider and clarify its inputs order in D.T.E. 01-20 in accord with the points demonstrated above.

Respectfully submitted,

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